

EX PARTE COMMUNICATION

BLUMENFELD & COHEN

SUMNER SQUARE

1615 M STREET, N.W. SUITE 700

WASHINGTON, D. C. 20036

202 955-6300

FACSIMILE 202 955-6460

RECEIVED

AUG 11 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

101 CALIFORNIA STREET
42ND FLOOR

SAN FRANCISCO, CA 94111

415 394-7500

FACSIMILE 415 394-7505

August 11, 1997

VIA MESSENGER

DOCKET FILED OCT 7 1997

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket No. 92-297
Notice of Ex Parte Communication

Dear Mr. Canton:

Pursuant to Section 1.1206 of the Commission's Rules, WebCel Communications, Inc. ("WebCel") hereby submits for filing in the captioned docket the attached seven (7) page set of slides presented by David Mallof, Jonathan Palmatier and myself to Evan Kwerel on Friday, August 8, 1997.

In accordance with the Rules, two copies of this slide are enclosed. Please contact me should you have any questions in regard to this matter.

Sincerely,



Frank V. Paganelli

Enclosure

No. of Copies rec'd
List ABCDE

024

WebCel Communications, Inc.

Recommendations for LMDS Auction

August 7, 1997

**Ex parte presentation to FCC presented as follow-up to
questions posed by the Commission staff during July 1997**

COCKE FILE COPY ORIGINAL
COCKE FILE COPY ORIGINAL

Reinstate Very Small Business Categories for the LMDS Auction

1. Reinstate less than \$3 million average revenue category.
2. Reinstate between \$3 and \$15 million average revenue category.
3. Both categories receive a 35% bidding credit.
4. Interest rates and interest free periods for installment payments as specified in Docket 97-82.

Comments:

- * *Congruent with findings of February 1997 Order and NPRM in Docket 97-82. pg 23.*
- * *Very Small Business categories supported by the National Venture Capital Assn.*
- * *Order of magnitude between categories less critical than the overriding need for distinct differences between categories.*

08/07/97

Average gross revenues	Interest Rate	Payment Terms
Not to exceed \$3 million	T-note rate ⁸⁶	2 yrs. interest-only payments; amortize principal and interest over remaining license term
Not to exceed \$15 million	T-note rate + 1.5%	2 yrs. interest-only payments; amortize principal and interest over remaining license term
Not to exceed \$40-million	T-note rate + 2.5%	2 yrs. interest-only payments; amortize principal and interest over remaining license term
*Not to exceed \$75 million	T-note rate + 2.5%	amortize principal and interest over license term
*Not to exceed \$125 million	T-note rate + 3.5%	amortize principal and interest over license term

*These entities have never been defined as small businesses by our service-specific rules, but for broadband PCS they may have been eligible for installment payments as entrepreneurs.

The schedule set forth above is based in general on the plans adopted for our most recent auctions and, relying on our past auction experience, we believe these plans are appropriate. However, we recognize that plans with more generous terms were previously adopted for specific services.⁸⁷ We seek comment on whether we should incorporate a schedule of

⁸⁶ The maturity date of the Treasury note would correspond with the license term for the particular service (e.g., a 10-year broadband PCS licensee would calculate its interest rate according to a 10-year T-note).

⁸⁷ For instance, our broadband PCS rules confer on businesses with gross revenues of not more than \$75 million installment payment plans with an interest rate at the 10-year T-note rate plus 2.5 percent, with interest-only payments for the first year of the license. 47 C.F.R. § 24.716(b)(2). In comparison, the proposed plan for

Cost of Capital Differences Between Various-Sized Businesses (Based Upon Fair Market Value)

Marketable Majority Fair Market Value /1	Equity & Risk Free Rates /2	Equity Rate /1	Debt Rate	WACC / 3,4	<u>Cost of Capital Advantage</u>	
					Incremental	Cumulative
\$4,050,000	24.40%	19.38%	11.75%	15.73%		
\$6,750,000	23.60%	18.58%	10.75%	15.03%	0.70%	0.70%
\$13,500,000	22.40%	17.38%	10.25%	14.28%	0.75%	1.45%
\$67,500,000	19.80%	14.78%	9.75%	12.83%	1.45%	2.90%
\$135,000,000	18.70%	13.68%	8.75%	11.98%	0.85%	3.75%
\$1,350,000,000	14.90%	9.88%	7.85%	9.81%	2.17%	5.92%
\$13,500,000,000	11.10%	6.08%	7.35%	7.76%	2.05%	7.97%

Notes:

1. Abrams, Jay B. *Valuation. American Society of Appraisers. Volume 39, No. 2, pg. 14*
2. Assumes a risk free rate of 5% based upon the historical return on U.S Treasury bonds.
3. *Weighted Average Cost of Capital.*
4. Assumes a 1:1 debt to equity ratio.
5. Increases in interest rates effect smaller firms negatively disproportionate to this table.

Cook Inlet Proposal for LMDS DE Program without Installment Payments
Exacerbates Access to Capital Problem

	Very Small Business < \$15 Mil	Small Business \$15-40 Mil	Entrepreneur \$40-75 Mil
<u>Cook Inlet Proposal</u>			
Sample Bid	\$100	\$100	\$100
(Bidding Credit Percentage)	35%	25%	15%
Less: Bidding Credit	\$35	\$25	\$15
Net due immediately to U.S. Treasury	\$65	\$75	\$85
 <u>Effect of Cook Inlet Proposal on DEs</u>			
Downpayment @20% with Installment Program	\$13	\$15	\$17
Increase in Capital Raise Pre-Auction w/o Installment Program	\$52	\$60	\$68

Comments:

1. Very small businesses must raise, at minimum, 65 cents on the dollar upfront to responsibly participate in the auction.
2. Elimination of installment payments requires a minimum 4 times increase in upfront capital to participate.
3. Proposed level of bid discount is too low to compensate for the elimination of the installment payment program as currently structured.
4. Even if bid discounts were raised significantly - greater than 50% for very small business - the access to capital problem is still left unsolved.

08/07/97

WebCel Recommended LMDS DE Program With Installment Payments

	<u>Very Small Business</u>		<u>Small Bus</u>	<u>Entrepreneur</u>
	<u>< \$3 Mil</u>	<u>\$3-15 Mil</u>	<u>\$15-40 Mil</u>	<u>\$40-75 Mil</u>
Sample Bid	\$100	\$100	\$100	\$100
(Bidding Credit Percentage)	35.0%	35.0%	25.0%	15.0%
Less: Bidding Credit	\$35	\$35	\$25	\$15
Net Obligation to U.S. Treasury	\$65	\$65	\$75	\$85
(Required Downpayment Percentage)	26.0%	26.0%	23.0%	20.0%
Less: Immediate Downpayment to U.S. Treasury	\$17	\$17	\$17	\$17
Remaining Principal Financed By U.S.	\$48	\$48	\$58	\$68
Interest Rate	T-Note	T-Note +1.5	T-Note + 2.5	T-Note +2.5
7 Year Term	2 Yr Int Only	2 Yr Int Only	2 Yr Int Only	Level P&I
(10 Year amortization of principal and interest with balloon payment on remaining principal at the end of year 7)				
U.S. Loan Exposure Compared to Largest Eligible DE	70.7%	70.7%	84.9%	100.0%

Comments:

1. Installment payment program helps to mitigate the access to capital problem.
2. Steeper bid discount helps to mitigate cost of capital problem for very small business.
3. Increasing downpayment lowers risk to U.S. Government from financing smaller entities.
4. Immediate cash payment to U.S. Treasury is the same for all eligibles.
5. Amortize note on a ten year schedule, modified by interest only period, but principal balance due and payable after 7 years.

08/07/97

WebCel Suggestions for Mitigating the Risk of the DE Program with Continuing Installment Payments

1. Enforce existing Rules - no restructuring or debt forgiveness.
2. Co-mingle DEs with non-DEs for future auctions (as with LMDS).
3. Raise downpayment for smaller DEs.
(Provided that access and cost of capital issues are correctly addressed).
4. Reduce term of loan to 7 Years (Amortization Schedule of 10).
5. Place a ceiling on the number of PoPs any DE can acquire (e.g., 25%).
6. FCC conducts due diligence on winning DEs prior to the granting of licenses to increase the likelihood of repayment.
(Similar to historical broadcast Rules which required a financial certification of ability to build and operate for some period of time.)
7. Bankruptcy law subordinated to the Commission's lien.